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ABSTRACT

A study of the history of public financing of elementary and secondary education in Ontario and the issues and choices presently facing the province's finance system suggest that proposals for radical change must be considered. Current pressures on the mixed provincial-local system of finance come from the slow rate of economic expansion generally evident and the new public awareness of the tax cost of government and are intensified by the problems of declining enrollment and public dissatisfaction with education as a panacea. Either increasing provincial grants and property tax levies or seeking new sources of local revenue appears to be infeasible given the present economic situation. The provincial take-over of education, on the other hand, offers a logical extension of the trend in Ontario's educational policy since the war and would separate the issues of property taxes and education. A more radical proposal that deserves study is experimentation with educational vouchers, which would permit individual parents a direct voice in the educational system. (Author/WD)

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WORKING PAPER NO. 2

FINANCING EDUCATION IN ONTARIO: ISSUES AND CHOICES

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MARCH, 1978

EA 013 261

COMMISSION ON DECLINING SCHOOL ENROLMENTS IN ONTARIO (CODE)

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FINANCING EDUCATION IN ONTARIO:
ISSUES AND CHOICES

Richard M. Bird

March, 1978

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This study reflects the views of the author and not necessarily those of the Commission or the Ministry of Education.

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When an institution is attacked, or when its functions atrophy or are transferred to other sectors, [a common response is to assume that] the institution is valuable in its own right, so we must discover a useful function for it.

.... Martin Rein

Those which we call necessary institutions are simply no more than institutions to which we have become accustomed.

.... Alexis de Toqueville

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I. INTRODUCTION AND SUMMARY

The history of the public financing of elementary and secondary education in Ontario is long and convoluted. The importance of such features as the peculiar political status of school boards and the important separate school system makes it clear that a clear understanding of this unique historical evolution remains highly relevant to any consideration of the problems and prospects of the province's current system of education finance. Nevertheless, despite the special circumstances which have to a large extent governed its past, it is increasingly crucial today to consider the issues in financing education in the context of the evolving provincial-municipal system as a whole, particularly the financial dimensions of that system. When this is done, as is attempted in the present paper, the conclusion that appears to emerge is that Ontario's system of financing education may well lose much of its special character in the future.

Valuable -- even essential -- though the historical perspective remains in providing a grasp of the precepts and realities that provide the setting for the current reappraisal of education finance, it is also dangerous. Too close attention to the past virtually guarantees that one will miss any major turning point (or breaking point) in the development of the existing system. The central argument of this paper is that Ontario is now near, if not already at, such a turning point.

If this tentative diagnosis is correct, it is essential to consider not only the sorts of "reforms" in education financing that have often

been proposed within the unquestioned basic parameters of the existing system but also much more radical proposals for change. Even if some of the latter seem too far removed from reality -- at least as "reality" is currently perceived by most of those most closely concerned with the educational sector in Ontario -- to be taken seriously right now, the pressures on the existing way in which education is financed are such that even that perception will have to change within the next decade or so. At the very least, it will become increasingly clear to all that finance is much more than a neutral veil obscuring but not altering what is "really" going on. In reality, how we finance a service affects how we provide that service and, indeed, what service is provided. The increased pressure on the existing financial system is therefore likely to result not only in changes in how we finance education but also in the education that we finance. This interdependence of fiscal and educational policy choices must be taken explicitly into account if wise decisions are to be made in either arena. If the issues facing educational finance in Ontario are what this paper suggests, the choices are far from minor.

As requested by the Commission, this paper focuses in a deliberately provocative way on the issues and choices facing Ontario's education finance system rather than on a detailed factual account of the means of finance presently employed. Part II of the paper sets out briefly the salient features of the present policy context which give rise to the above diagnosis. Part III then outlines a series of possible alternative responses to current problems. First, a series of commonly suggested measures that do not basically challenge the relative autonomy and priority status of the present system of education finance are

considered. These seem unequal to the task, however, so some more radical alternatives, which call into question some of the fundamental principles upon which that system is erected, are then sketched. A brief conclusion indicates two possible policy choices which warrant more detailed consideration if the arguments advanced in this paper are accepted. The first of these, the provincial take-over of education, is basically within the system, though rather drastic. The other, some experimentation with education vouchers, is considerably more radical and calls into question some of the fundamental premises of the present educational system. Some combination of these two policies may also be considered, perhaps together with some reallocation of resources within the educational sector.

II. THE POLICY CONTEXT

Education Finance in Ontario

The way in which Ontario presently finances elementary and secondary education has its roots in the curious historical fact that local school systems and provincial educational grants existed in many areas of the province before the organization of local government (Dupré, 1967).* From the beginning, then, Ontario's educational system has to a large extent been shaped by the provincial government, both through its detailed control of the structure and content of education and through its financial instruments. Equally important, education is unique

* Although the separate school question has strongly influenced the development of education finance in Ontario, (Cameron, 1972), this issue is not explicitly considered in the present paper.

amongst local government activities in the priority with which it can lay claim to local revenues. The level of educational expenditures is set autonomously (under close provincial guidance, of course) by elected local school boards which can then require municipal governments to levy a property tax sufficient to make up the difference between these expenditures and the grants received from the province.

Although the basic structure of this system has existed for over a century, there have been marked changes in the relative importance of different elements within that structure in recent years. One such change was the major consolidation and reorganization of local school boards during the 1960's. The sweeping elimination of small local boards that took place at this time not only made clearer than ever the strongly directive provincial role in education but also effectively eliminated the historic community origins and basis of the elementary school system (Cameron, 1972). Education was thus still further marked out from other "local" services, and its already tenuous connection to the general system of municipal government became even more tenuous. The subsequent reorganization of the municipal governments as well did little to change this situation, partly because little effort was made to connect the new upper-tier municipalities logically with the reorganized school boards, but mainly because the lower-tier municipalities remained the only ones actually to levy property taxes. If anything, the introduction of the two-tier municipal system may have strengthened the ability of the local educational structure to proceed in splendid isolation from the general system of municipal government in the province.

At the same time as the local roots of the educational system were severed, the direct provincial role in financing education began to grow

significantly. Throughout most of the postwar period the proportion of total provincial-municipal budgets spent on education rose steadily, but for much of this period a substantial fraction of the increase was financed by increased demands on local property taxes. In 1945, for example, only 29 per cent of property taxes went to finance education; by 1963 the corresponding figure was 46 per cent (Cameron, 1972, 54); and by 1969 it reached a high of 59 per cent (Feldman, 1976). Looking at these figures from a different angle, however, the proportion of total educational expenditures financed by municipal property taxes fell from 62 per cent in 1950 -- a level maintained throughout the 1950's -- to only 51 per cent in 1969 (Statistics Canada, 1976).* Still, at the end of the 1960's, about half of educational expenditures were being financed through local property taxes, and the school taxes accounted for almost three-fifths of the total property tax levy in the province.

Coincidentally with the major school board reorganization, however, this situation changed drastically. By 1974, only five years later, taxes levied for school purposes accounted for only 44 per cent of total property taxes, and these taxes financed only 36 per cent of educational expenditures (Feldman, 1976). The explanation for this precipitous drop, of course, was the substantial increase in the absolute and relative importance of provincial grants for education that took place after 1969. At the present time the financial situation appears to have again stabilized, at least temporarily, with the province bearing half or more of total education expenditures, and most of the balance

* Although the statistics from the various sources cited are not always strictly comparable, the trends of interest here are not significantly affected by this incomparability.

being met by school board levies on the municipal property tax.

Three aspects of these recent developments deserve to be emphasized. First, the provincial assumption of a much greater share of the burden of financing education appears to have been motivated primarily by the desire to lower property taxes rather than by any purely educational considerations (Cameron, 1972). The desire to provide more equal educational opportunities throughout the province was no doubt also a factor in the province's decision, but it does not seem to have been the motivating factor.

Secondly, property taxes as a proportion of both income and assessed value did in fact fall sharply during the 1969-74 period (Bird and Slack, 1978). One result of this decline was that, just as in the case of education, the share of general municipal expenditures financed through property taxes also fell in these years (from 40 per cent to 33 per cent). Again, increased provincial grants for general municipal purposes made up the difference. These two points together suggest, as developed in the next section, that the future of education finance in Ontario, although less dependent than before on the property tax in narrowly financial terms, continues to depend in an important policy sense on both municipal and, especially, provincial policies towards this tax.

The third point which deserves emphasis is that the connection between the growth of school enrolment and the growth of school expenditure demonstrated throughout the postwar period was extremely weak. A recent estimate for Canada as a whole over the twenty years 1957-1976 is that less than 20 per cent of the total increase in expenditures on elementary and secondary education may be attributed

to higher enrolment (Perry, 1977). Earlier estimates for Ontario alone show comparable results (Cameron, 1972, 84). The fastest increase in provincial educational expenditures was in the early 1960's, for example (Foot, 1977): a detailed analysis of this period attributes only 19 per cent of this increase to the effects of increased enrolment (Selby-Smith and Skolnik, 1969). Most of the past rapid growth of educational expenditures, then, must have been due to increases in either costs (whether resulting from inflationary general price rises or from rising real incomes of teachers) or quality (e.g., lower pupil/teacher ratios).

Cameron (1972, 68) suggests that increasing enrolments in themselves would tend to result in an increase in the real income of teachers, since the market reward for teaching had to increase in order to attract more teachers into the profession (given the provincial policy of satisfying all educational demands). The marked simultaneous decline in the pupil/teacher ratio through the 1960's, however, can in no sense be taken to reflect ultimate "market" forces -- except as transmitted (and perhaps transmuted) through the inevitably imperfect political-bureaucratic filter of the provincial educational establishment.

The main determinant of the demand for educational finance in Ontario has thus been not so much the size of the school-age population but the relative strength of the educational and central financial agencies within government -- and the underlying "public opinion" on which each relies and which affects, however remotely, what governments do with respect to both taxes and expenditures. Education's strength in this forum has so declined in the last few years as to make the prospects for further increases in real expenditure on education in the near future exceedingly bleak. The well-publicized decline in

enrolment has undoubtedly exacerbated this situation, but it did not create it.

The Provincial-Municipal Setting

Although Ontario's system of financing education has evolved and adapted considerably since its earliest days, on the whole its major features have managed to persist quite successfully in a rapidly changing environment. It is far from clear, however, that the present mixed provincial-local system of finance will be able to withstand the current pressures on it. These pressures come from two principal sources: the general financial situation and the key role of the property tax in the present system of financing education.

The incredible postwar expansion in educational spending in Ontario was made possible largely by the prolonged period of economic expansion up to the early 1970's and the accompanying virtually painless expansion of provincial government revenues. These were also the years of enormous increases in federal transfers to the provinces, transfers which facilitated and encouraged the marked provincial willingness to finance expanding education expenditures. The slowing down of economic growth and the new awareness of the tax cost of government suggests that this well has now run dry.

All indications are that the real revenues at the disposal of the provincial government are likely to grow considerably more slowly in the future than they did in the past (Foot, 1978). This slower "automatic" growth of revenues at a time of considerable public sensitivity to discretionary tax increases suggests that provincial expenditures in general will also be constrained over the next decade. In particular,

as Foot (1978) concludes, "school boards in Ontario should be planning for negative 'real' growth in their receipts from the provincial government". This somber projection is reinforced both by the apparently obvious justification for such cuts provided by declining school enrolments and by the apparent disillusion in society with the oversold virtues of the educational panacea (though the latter argument perhaps applies more strongly to the case of post-secondary education).

For these various reasons, then -- the general economic constraint on provincial revenues, the apparent additional political constraint on provincial expenditures, the decline in the student population, and perhaps also some public dissatisfaction with the educational system -- there would appear to be little or no prospect of significantly increased provincial financing of elementary and secondary education in the near future. Indeed, as Foot (1978) in effect concludes, in the passage quoted above, there may well be reduced provincial financing in real terms (that is, after allowing for the effects of general price inflation).

This line of argument thus suggests that either the total amount of resources in the educational sector will have to contract or new sources of finance will have to be found. The only other major source of finance presently utilized is the municipal property tax. The question therefore becomes whether more revenues can (or should) be derived from this source. And if, as many seem to think, they cannot (or should not) be -- and yet the absolute level of education expenditures is to be maintained in real terms -- where else can we look?*

* Maintaining total real educational expenditures with a declining school population of course means increasing per pupil expenditures, e.g., by lowering pupil/teacher ratios. If the policy aim is rather to maintain per pupil real expenditures ("constant quality"), the financial pressure will obviously be less -- though the traumatic effects on teachers will be greater.

To answer these questions requires a clearer perception of the nature of the provincial-municipal system in Ontario and of the highly political nature of property tax policy in this province.

An important point in this respect concerns the long-standing provincial sensitivity to the level and structure of the local property tax. The result of various provincial actions over the last decade has, in effect, been to increase substantially the extent to which this "local" tax really reflects provincial decisions and actions (Bird and Slack, 1978). Not only does the province basically set property tax rates through its allocation of expenditure responsibilities and grants, but it also (through the provincial assumption of assessment) really determines the tax base to which those rates are applied (or at least will soon do so). Moreover, the province has repeatedly publicly accepted responsibility for property taxes, as evidenced both by the property tax credit and by such ministerial utterances as the recent statement by the Treasurer of Ontario on how municipalities should handle the change in their tax bases that would result from market value assessment (McKeough, 1978). Municipal governments in Ontario are clearly the creatures of the province not only in law but in reality: in no area is this dependence clearer than with respect to the property taxes that they levy.

The obvious sensitivity of the provincial government to the level of property taxes faithfully reflects that of the public as a whole. No newspaper reader in the province escapes the annual assault of screaming headlines informing him or her of the property tax increases that will soon have to be faced. Although in terms of democratic theory such public awareness of the "tax price" of the services provided by

government has many virtues, in practice the result is to make both provincial and municipal politicians extremely reluctant to draw down still more vituperation upon themselves by increasing taxes one bit more than they have to.

The inevitable lag in adjustments in the tax base to inflation (even when, and if, market value assessment finally comes into effect) and the apparent tendency of the prices of those things governments buy to rise more quickly than the general price level means that politically unpopular increases in property tax rates are required almost every year if municipal service levels are not to deteriorate.* Since the prospects for the immediate future are for a slowdown in the rate of growth of provincial financing of general municipal expenditures also, municipal demands on property tax revenues are likely to be relatively greater in the future than in the past, thus reducing the (psychological) "room" for additional school taxes.

In these circumstances, what are the prospects for increased school taxes? In principle, of course, school boards may simply levy on municipalities as they see fit. In practice, however, school boards too are elected and hence are sensitive to general property tax pressure in their areas: whether this pressure is "real" or simply perceived does not matter since it is, as always, perceptions that govern actions. But school boards too are under the same need as municipalities to raise taxes in order to maintain service levels: although the pressure on

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* The prices of the goods and services purchased by government have tended to rise more quickly than prices in general in Canada, as in most countries, largely because public sector wages have risen relatively to private sector wages (Bird, 1977). For a detailed examination of teachers' salaries in Ontario, see Stager (1978).

boards in some respects should be alleviated as a result of declining enrolments, it may well be exacerbated if, as suggested earlier, the slowdown in provincial financing hits them more severely.

Moreover, although the effects on costs of the decline in enrolment should cushion the blow somewhat, it is unlikely to offer much relief to hard-pressed boards in the short run in view of the fixed contractual nature of most costs. Even after such mutual accommodation as can be made locally, the combined pressure of increased school levies and increased municipal levies seems almost certain to raise property tax levels significantly in many Ontario municipalities. The only way to avoid this result, which past evidence would suggest is likely to prove politically unacceptable, is to make some basic changes in the present system or to cut sharply the real level of expenditure on education in total (not per pupil) terms.

Two aspects of the proposed property tax reform may exacerbate this already difficult situation even further in some areas. In the first place, one consequence of the provincial assumption of the assessment function will almost certainly be a reduced sensitivity of the assessment process to specifically local needs and pressures. For example, even when general school enrolments are declining, enrolments in some boards and municipalities will still be increasing, thus accentuating the financial pressure in these areas. In the past in such circumstances it was not uncommon to produce the required increase in revenues through a combination of reassessment and higher rates, thus muting (through confusion) the inevitable taxpayer protest. A centralized "technical" assessment process, whatever its other merits, will no longer lend itself to such use. This may improve the democratic

accountability of governments, but it is also likely to make it harder to finance the "required" expansion.*

Secondly, another aspect of the reform is that school board property will be assessed and taxed for municipal purposes, and vice versa. This reform is not simply a nonsensical process of taking money out of some governmental pockets and putting it into others. Rather, it is a necessary ingredient of rational land use policy within the public sector and between the public and private sectors (McKeough, 1978). Nevertheless, an immediate consequence of this reform will again be to accentuate pressure on some boards -- though perhaps alleviating it on others. This point clearly warrants more detailed study.

In general, then, the almost certain upshot of the reduced provincial financing of education forecast earlier is the need to rely more heavily on property tax finance. There is no economic reason why the property tax structure, whether reformed or not, cannot bear such an increased load.** But what seems more questionable in the current climate is whether the taxpayers, or -- perhaps more importantly -- the provincial government, which has committed itself so heavily to the proposition that the property tax is a bad tax, would stand for it.

The pros and cons of simply staying with the existing system but shifting back from provincial to property tax finance of education are considered briefly in the next section, along with some alternative responses to what are likely to be some trying problems faced by those concerned with education in Ontario.

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* Of course, it should not be forgotten that provincial assumption of the assessment function saves the municipalities a good deal of money too.

** Indeed, the modern literature suggests the property tax has many merits as a revenue source (Bird and Slack, 1978).

III. PROBLEMS AND RESPONSES

A "problem" may be defined as a change in society that creates political pressures and brings forth demands that the government "do something" (Buttrick, 1977). The "problem" facing the educational finance system in Ontario differs depending on one's perspective. For educators, the problem is probably how to maintain and even increase public expenditure on education -- and thus educational "quality" -- in the face of the situation sketched above. For governments, the problem is not only how to do this but whether it should be done in view of the general desire for expenditure restraint and the decline in the size of the school-age population. For citizens in general, the problem is all of the above plus a nagging doubt as to how well-served they have been by the rapid expansion of the educational sector in recent decades.

Government policy-makers are thus assaulted from all sides, as well as from within, by demands to do something -- and in almost all cases the "something" has significant implications for the present system of education finance. The discussion in this section is a first attempt to consider some of the possible alternative ways of financing education and their implications for the basic choices society faces as to what kind of educational system it wants. There are few areas of policy in which "facts" and "values" are more closely intertwined or more likely to give rise to controversy: the presentation of these alternatives here is intended not to resolve any issues but to present what seem to be the issues in a way that will set the stage for the needed detailed discussion and investigation of the choices Ontario citizens face.

Provincial Grants

The most obvious, simplest, and -- to educators -- most attractive way to resolve "the" problem is simply to increase provincial grants to education. This solution would permit the maintenance of the size of the educational establishment in real terms. Indeed, with declining enrolment, many educators would argue that there is a *prima facie* that this policy would mean an improvement in the "quality" of education, which would (at least in their eyes) obviously be a good thing. Moreover, while obviating the painful political problems of increasing reliance on the property tax, an increase in the absolute and relative importance of grants to, say, 70 per cent or so of total educational costs would, so it might be argued, still be quite consistent with the maintenance of the traditionally important local role in the provision of education.* Furthermore, since grants are financed through general provincial revenues, many would conclude that such an increase would mean that the burden of financing education would be more equitably distributed than under a system depending more heavily on the property tax.

There are, however, several major difficulties with this solution. First, as suggested in the previous section, circumstances seem to rule it out anyway. Secondly, even if circumstances made it possible to increase grants, one can legitimately reverse every argument made above in favour of doing so. The real size of the educational sector should, it might be argued, be reduced, not maintained: there is no convincing evidence that lowering pupil/teacher ratios further will have any result other than raising unit costs, and there are many other good things

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* This position was asserted, for example, by E.B. Rideout and M. Brownstone in Canadian Tax Foundation (1968).

(public and private) that could be done with these resources. In any case, people should be faced as directly as possible with the fiscal consequences of political decisions, not shielded from them by adding to the existing impenetrable jungle of intergovernmental fiscal arrangements.* On the other hand, it might well be argued that since, as asserted later, the local role in education is already irrelevant, such marginal changes in the share of grant financing will not much affect it anyway. Finally, there is no reason to think that the progressivity of education finance will be substantially altered one way or another by increasing grant finances since the usual popular views on the regressivity of property taxes are only poorly supported in either fact or theory (Bird and Slack, 1978). The first difficulty alone, of course, suffices to rule out this path of action, or so it will be assumed here.**

Local Property Taxes

Frustrated at the provincial level, the next logical place for educators to turn for succour would appear to be the municipal level, for increased property tax finance for education. The advantages of this solution are probably much less compelling (to educators) than increased grants: briefly, they are that municipalities must levy the taxes requested by school boards and that this method of financing education is traditional and accepted. More importantly, increasing the local share of education financing might strengthen local autonomy

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* For a detailed catalogue of the non-educational grants in Ontario, see Report of the Provincial-Municipal Grants Reform Committee (1977).

** Indeed, the province may well shift more of the total grants to municipalities in order to meet their needs while staying within the "Edmonton Commitment". Whether this action is warranted or not cannot be discussed here.

and control -- and also act as an incentive to local school boards to keep down costs.

The disadvantages of this approach are many: in reality, school boards also -- albeit indirectly -- confront local taxpayers and hence are unlikely to be willing to maintain the size of the educational sector in the face of declining enrolments. Moreover, increased reliance on local tax finance brings with it the possibility, deplored by many, of local inequalities arising from differences in the willingness and ability to finance education -- and, perhaps equally abhorrent to many provincial educators, the possibility of increased local attempts to exercise real control over the school system. Finally, despite what was said above, many people consider the property tax in general to be inequitable, and property tax finance of education in particular to be especially unsuitable (on the "benefit" grounds noted below). It is also not clear how the province, which has long tried to keep property taxes down, would view increasing these taxes to finance education.

A balanced assessment of this alternative is more difficult to reach. Aside from the probably most important political factors discouraging heavier property taxes, there are in fact good reasons for supporting more local financing of local services and for relying heavily on property taxes to supply this financing. It does not follow, however, that an increased share of education finance should therefore come from the property tax, largely because education is not really a "local" service.* Indeed, the Province of Ontario's actions in the educational field have from the very beginning shown clear awareness of

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* For a particularly cogent discussion of this question, see Nova Scotia (1974).

the "general" rather than purely local nature of the effects of highly unequal local educational systems. Although it might still be argued, with some merit, that more direct local influence over the content and nature of local educational systems would be desirable, a move in this direction would constitute a radical break from the tendency of recent years and is unlikely to take place. A more likely outcome is an increased demand on local property taxpayers to finance a school system over which they have virtually no control. Increased reliance on local financing would result not in increased local autonomy but in reduced political responsibility and accountability, owing both to the severance of the spending school boards from the taxing municipalities and to the vast and detailed provincial influence over board expenditures. All in all, then, increased property taxes for school purposes within the present structure seem both politically unlikely and, at best, questionably desirable.

New Sources of Local Revenue

The alleged regressivity of the property tax -- and its demonstrated unpopularity -- have led many to suggest that this revenue source should be supplemented, or replaced, by some other source of local revenue. Perhaps the most commonly suggested alternative is a local share in the provincial income tax: presumably school boards could then tap this tax base, as they now do the property tax base. Since such a tax would have to be provincially collected, the already vestigial local role in the education finance process would virtually vanish under this system. Other possible alternatives which would retain more direct local responsibility -- separate municipal income or sales taxes -- are mentioned less often, perhaps because their administrative and/or

distributional consequences are recognized to be not very attractive (Johnson, 1974).*

It would indeed be quite possible technically to shift the basis of local support for education to an income tax base. Perhaps the most feasible system would be one in which (as now) provincial grants and controls guaranteed a basic standard of education throughout the province, while the different regions levied differential supplemental income tax rates to make up the difference between this foundation standard and that which they chose to achieve (Hartle, 1968). It would not seem feasible to move to this system without two fundamental changes in local government organization, however: first, the granting of the new tax authority to the upper-tier rather than the lower-tier municipalities, and, second, and less crucial, the matching of school board areas with those of upper-tier municipalities. Assuming an administrative system could be worked out, the consequence would be income tax differentials within the province -- probably, like those within the country as a whole now, with the highest rates in the poorest areas but the highest level of education spending in the rich areas. There is no way to avoid this result without suppressing all possibilities for higher-income regions to provide better levels of education (as, it should perhaps be noted, they do of almost everything else anyway).

Realistically, there seems little reason to think that the province would be willing to permit the establishment of such a regional income tax system. The constant complaints of the provincial government that the federal government has not provided adequate income tax "room" does

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* Similarly, municipal sharing of the provincial sales tax is seldom discussed, perhaps because of its presumed regressivity.

not suggest that they would readily give up the "room" they have to the municipalities. What may be more likely is the assignment of some proportion (fixed or variable) of the yield of the income tax (or perhaps of the sales tax) to municipal or educational purposes.

If the revenues thus derived are returned to the areas that give rise to them, the scheme is much like that mentioned above, with the very important difference that there is now no regional discretion on rates: either the resulting variations in funding would have to be offset by grants or widely different levels of finance for education would result in different regions. If, on the other hand, the revenue produced by this levy were distributed in accordance with any other formula, the system in effect becomes just another form of grant rather than any real form of tax sharing.

In either case, there is really no local role in determining how much should be raised in this way. More importantly in the present context, there is also no reason to expect that any resources secured for education through such devices would be additions rather than simply replacements for other grants (or property taxes).

Reallocation of Educational Resources

Educators understandably want to maintain, even increase, the financial resources under their control. Unfortunately, none of the three ways of doing so canvassed above seems to be either very feasible or very attractive. The decline in school enrolments in fact suggests that a more attractive alternative to many voters, politicians, and financial officials may be to reduce the total proportion of public sector resources devoted to education and to meet such increased needs

as will still arise (e.g., owing to inflation or population shifts within urban areas) by readjusting the allocation of this reduced total.

In a recent study, for example, Buttrick (1977) proposed, as one way of dealing with the problems that he saw emerging within the education sector, the transfer of some resources from secondary to elementary education, which he stressed -- surely correctly -- as that which most warranted public concern. (Indeed, he favoured freeing still further resources for this purpose by abolishing Grade 13.) Although this paper is not the place to consider such proposals in detail, there will no doubt be increasing pressure on the educational sector along these (or similar) lines. The optimist may note that the required re-examination of the allocation of educational resources may actually result in an improved educational output; the pessimist will reply that it is usually possible to allocate sensibly only increases in resources and that retrenchment usually reinforces mediocrity. This debate too cannot be resolved here.

Provincial Take-Over of Education

It was suggested above that increased provincial grants to education seem unlikely in present circumstances. The complete provincial take-over of education might therefore seem to be an even more unlikely solution to the education finance problem. Nevertheless, the idea is worth discussing here because it is an eminently logical extension of the trend of Ontario's educational policy since the war. The only significant argument against it -- apart from its financial implications -- is that it would reduce the scope for local input and local diversity in the educational system. At the present time, however, the real scope

for either is already miniscule. Moreover, it is possible, at least in principle, to retain and even enhance such local input in a completely provincial educational system, as is outlined for example in Nova Scotia (1974). The battle for local control of education in Ontario was lost long ago, indeed virtually before it could be fought. Why not go all the way and recognize that education is basically a provincial rather than a local service?

Full provincialization of education would thus represent simply one further step on a path Ontario has been following for many years. The main financial argument against it -- that the absence of the visible property tax constraint on local boards would remove any incentive to restrain educational expenditures -- makes sense only to those who believe that provincial governments do not have similar incentives, particularly these days. A move in this direction would also have the substantial advantage of separating the question of the appropriate level of education spending from the question of the appropriate level of the property tax.

This is not to say, however, that property taxes would necessarily be reduced as a result of such a shift. On the contrary, the contribution of property taxes to education finance is much too large for the provincial government to forego this revenue source completely if it were to take on the full burden of financing education. One possible scenario -- that proposed in Nova Scotia (1974) and, indeed, followed to some extent in all the Maritime Provinces -- would be for the province to take over the non-residential property tax (which coincidentally produces about the right amount of revenue), leaving the residential portion of the tax to finance general municipal services. Such a move would make much more valid the

common perception of the residential property tax as a benefit tax. It would also be consistent with the persistently displayed provincial interest in removing much of the burden of the more expensive "general" services from the residential property tax. An additional source of provincial finance might then be released through dropping the property tax credit, since much of its rationale would then have vanished -- not that it has much anyway (Bird and Slack, 1978).

The scenario sketched above would result in the following realignment of functions and finances. The municipalities would levy taxes on residential property for general services -- and, ideally, make much more use of service and user charges on residents and businesses alike (Bird, 1976). The province would completely finance and control elementary and secondary education. It could find the additional financial resources through the abolition of the property tax credit and the taxation of non-residential property (or in any other way it saw fit). The school boards could remain as basically local advisory committees -- perhaps preferably reverting to something more like the old community basis: tney would have no direct taxing role at all but might retain substantial, perhaps even increased, expenditure responsibility if some adequate form of output monitoring could be devised (Nova Scotia, 1974).*

A number of important obscurities and problems clearly remain in this picture -- just how would the school boards function? Could they be effective if they have no direct taxing role? Would the removal of

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* Central control thus need not mean central administration or inadequate recognition of local needs. Perhaps the current experience with District Health Councils in Ontario may have some lessons in this respect, though there would still be merit in <u>electing</u> school councils.

non-residential property from the local tax base adversely affect municipal land use decisions? .... and so on. Nevertheless, this system has several major virtues that suggest it would repay more careful examination: it would make the lines of responsibility clear, and closer to reality than is the present system; it would separate the property tax and education issues; and, finally, despite its radical appearance, it is in fact really a logical outgrowth of the long-standing trend towards the provincial provision and finance of education and provincial control of the property tax.

Consolidation of Boards and Municipalities

A considerably more radical proposal than the provincial take-over of education -- though it was not presented as such -- was in fact made a decade ago by the Ontario Committee on Taxation (1967). Their preferred solution to the school finance problem as it then appeared was to merge the school boards and the municipal councils (both reorganized). This proposal was in fact exceedingly radical in that it would both remove the special priority of education in the local tax pie and also give the strengthened local councils much more direct control over education than they have ever had in this province.

This proposal was well-grounded in the basic democratic premises of accountability (those who levy taxes should be responsible for what is done with the revenues) and local autonomy (local governments should be able to do what they see fit with their tax monies, subject to the principle of accountability). But it flew directly in the face of the demonstrated desire of the provincial government, and provincial educators in particular, to provide education throughout the province as uniformly as

possible -- a goal which required strong central control of both "local" expenditures and "local" revenue policy.

Although the desires of the various relevant actors in the political process have probably changed little in the last decade, it is nevertheless worth considering briefly what the result of consolidating school boards and municipal councils might be in present circumstances. The most obvious and important result would be that expenditure demands for education would, for the first time, have to be explicitly compared at the local level with those for other services. Even if provincial grants for education continued to be conditional on being spent on education, it might be expected in certain cases that local councils would adjust their budgets so as to spend less on education out of local taxes than they might otherwise have done (the "substitution" effect discussed in Slack (1978)). U.S. evidence -- although suspect* -- suggests that some such substitution effect is indeed likely (e.g., Denzau, 1975). If provincial grants were unconditional, local priorities would of course get even more play and the result might well be reduced total expenditures on education.

This result is particularly likely to the extent that education is financed by the residential property tax, that many property owners do

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* In most U.S. states, in diametric contrast to Ontario, educational expenditure is the most, rather than the least, sensitive local expenditure to local taxpayer pressures, owing to the frequency of referenda on school capital projects and even school tax rates.

not have children in the school system, and that the benefits of educational expenditures are seen as accruing to non-residents (via "spillover" or "exports"). This last argument also suggests that locally-financed education will be undersupplied. On the other hand, to the extent costs are met through taxes on non-residential property -- which are themselves viewed as exported for the most part (Johnson, 1967) -- and voters consist of non-property-owning parents, education may tend to be oversupplied. There is thus no simple or uniform answer to the question of what would happen to the level of educational expenditures if education became a significant, direct financial responsibility of general municipal governments (and other aspects of the system remained constant). On the whole, however, it seems unlikely that change in this direction would offer much comfort to those desirous of maintaining, let alone expanding, expenditure on education in Ontario. Though it might result in local education systems more responsive to the desires of local communities, many educators might also doubt whether this is an unalloyed virtue.

Market-Oriented Responses

Such concerns would no doubt be even stronger with regard to an even more radical way of coping with present educational finance realities. In essence, this alternative constitutes what may be called the 'Economist's Solution' (Buttrick, 1977) of devising a financial mechanism which permits individual parents to have some direct say on the level and nature of the education obtained by their children.

When the quantity of educational services demanded declines owing to the fall in enrolment, elementary economics suggests that the quantity of such services supplied should also decline. Much of the "problem"

seen by educators arises from their desire to continue devoting the same (or more, in per/pupil terms) resources to education in the face of this fall in market demand. The present bureaucratic provision of public education in effect makes it almost unresponsive to such demand shifts. The real consumers of the educational product in a market sense are not the public, which "buys" it only at several removes, but governments, and in particular the provincial government. The public affects the decision of government as to how much education to buy only through that nebulous but important force called "public opinion".

Considering the government as the direct "purchaser" of educational services, the present problem of educators is that, for the first time in decades, they are coming to realize that not everyone wants to buy more of what they have to sell. The psychic shock of learning this unpleasant fact, coupled with the real human difficulties faced by all producers in declining industries, makes it seem almost cruel to discuss the possibility of introducing direct market forces even more openly into the educational picture. In fact, however, it may be argued that only by doing so is there much prospect of increasing the resources going to the educational sector in the near future, should this be determined to be an appropriate policy goal. This prospect is perhaps attractive enough to warrant closer examination even by those most wedded to the present virtually monopolistic bureaucratic educational system. Those who want more variety and choice than is now afforded to parents and students by that system should of course find the market-oriented options even more interesting.

In a sense, what is at issue here is a reversion to the original financing of education in Ontario by fees or "rate bills" charged to

parents only (Cameron, 1972). In some cases certain fees were levied at the secondary school level as late as 1921, though by 1871 all elementary schools were financed by general tax sources alone. In another sense what is at issue is an extension to all citizens of the sort of choice presently afforded in principle to Catholic owners and tenants, who can choose to pay the separate school rate or not. The real scope of this choice has been limited since the separate school rate is constrained to be virtually identical to the public school rate. Since the separate school tax base is much smaller, the result is considerably less revenue per pupil in the separate system and cheaper schools, which are not noticeably inferior in educational terms, at least in the eyes of parents.* Finally, as anyone familiar with Toronto real estate markets knows, traditionally "good" schools are also marketed in higher house prices, though this phenomenon is much less important in Ontario's centralized school system than, say, in most U.S. states. These very limited "market" orientations of educational finance in Ontario are not much, but they at least indicate that the notion of parents paying for schooling is not completely alien in this province, strange as it may at first sound to the indoctrinated modern ear.

Broadly speaking, there are three ways in which a more explicit "market" in school services might be introduced on the demand side: through fees, tax credits, or educational vouchers. The first, and oldest, method of charging full cost to parents has the usual economic

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* This sentence slides over the difficult problem of educational "quality" by asserting: (1) that parents are the best judges of quality, and (2) that parents do not view the separate school system as inferior. Both propositions are of course debatable, but the first is essential to the whole "market" approach -- though contrary to received educational wisdom.

merits of pricing, but in the absence of an adequate basic income redistributional policy it is probably a non-starter (Seldon, 1977).

The second method allows parents (or students) to credit fees (or some portion of them) against taxes, thus providing a uniform subsidy to education. In principle this system can achieve exactly the same results as a system of direct grants to all schools -- not just publicly-provided schools -- for the equivalent fraction of educational costs (Stubblebine, 1965). Again, however, unless the tax credits are made fully refundable (a negative income tax), the basic distributional problem makes it difficult to consider this alternative seriously.*

The best "market-oriented" system available, then, appears to be what are called "educational vouchers", which are, in effect, non-transferable subsidies that may be spent only on education. The main difference from the present system is that these vouchers would not have to be spent in state-provided schools. The differences from the other "market" systems mentioned above are that the vouchers would have to be spent on education and that the size of the voucher could be made inverse to income, if desired: the compulsory and subsidization aspects of the present system could thus be retained, and indeed the degree of redistribution through education could even be enhanced.

Indeed, only the poor might receive vouchers, with the rich being left to look after themselves. If such overt pro-poor discrimination were thought to be politically unpalatable, equal vouchers could be

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* Note that the deduction of tuition from parental income has no merit at all, since it gives the most benefits to those subject to the highest tax rates, that is, those with the most income. (On the other hand, a good case can be made for allowing tuition as a deduction against the income of students, as in the present income tax.)

given to all: the result would of course be unequal educational opportunities to the children of the rich and poor, though there is no reason to think that the resulting inequality would be any greater than that prevailing under the present system where, in effect, the same situation prevails. The only difference with a voucher system would be that parents could, within the limits of their other resources, transportation possibilities, and the like, choose where to spend their educational money.

The main implications of this approach to financing education are thus for the supply of education. This is not the place to pursue the many arguments on this aspect in detail: various scenarios have been sketched in the literature with perhaps the most probable being a mixed public-private system (Blaug, 1969; Katzman, 1972; Rowley, 1969; Levin, 1968; Hack and Woodard, 1971).* In any case, the upshot would almost certainly be a system much more responsive to the wishes of parents, who would now be the direct financers of the education system. (The source of finance for the voucher scheme is irrelevant here, but the earlier sketch of the possibility of provincial entry into the non-residential property tax field and the abolition of the property tax credit as a source of general revenue remains relevant.) This increased responsiveness is one of the principal virtues of the voucher approach.

The other virtue (from some points of view) is the probability that the result of enabling parents to exercise more choice with respect to the education of their children may well be an increase in total expenditure on education (Seldon, 1977). Even keeping the same basic

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* For a recent proposal for a voucher scheme for nursery schools in Ontario, see Krashinsky (1977).

provision system as now exists in Ontario, it has been suggested that this result would come about as a result of increased student retention in secondary schools (Buttrick, 1977).

The principal arguments against vouchers are that the result will almost certainly be more overt (if not real) inequality in educational opportunity (Klappholz, 1972). Overdone as this argument usually is -- if 100 years of compulsory education has not educated the populace to the point of rationally choosing education for their children, more such education would appear to be of little social utility -- there is some merit in this reproach. On the other hand, the opportunity to create centers of (different kinds of) excellence will no longer be confined to the very well-off alone, which might be taken to improve opportunity. Nevertheless, different choices will indeed result in different, and unequal, educational opportunities, and the rich will no doubt come out best in this (as in any other) scheme. This result clearly goes against the long-standing desire in Ontario to equalize educational opportunities across and within jurisdictions.*

Another argument against vouchers appears to be even more crucial in the eyes of some. It is that education is not, and should not be, left to the choice of parents because it provides the important social underpinnings of value inculcation and hence must be under the control of the state -- or at least the control of the certified state educator. In fact, through curriculum and training control the same

* A concrete illustration of the sort of thing that could not happen under a market-responsive system occurred recently in a Toronto suburb, when a group of parents were refused permission to pay for supplemental French instruction on the grounds that it would be "unfair" for their children to be thus privileged if other children were not. Either everyone got French, or no one did: the result, of course, was that no one did. This form of egalitarianism may seem extreme to some.

ends can be achieved, to the extent they are considered socially desirable, through a private system as well, as indeed Ontario experience with separate schools shows. What cannot be so achieved, however, is the thorough homogenization of the population which is the apparent aim of some educators (Rowley, 1969).

As these few remarks suggest, the choice of any of the "market" alternatives to the present system of education finance would raise some really fundamental problems in educational and social philosophy. No answers are offered here to these deep problems. The point of this brief discussion has instead simply been to suggest that the possible importance of considering at least some moves in this direction, perhaps in combination with some of the other policies mentioned above, should not be neglected. Much more work and thought is required before a serious proposal along these lines could be put forth.

IV. CONCLUSION

Although no clear conclusion emerges from this brief survey of some large and complex issues, the scheme that seems most worthy of more careful consideration is the complete provincialization of education, with the concomitant removal of educational taxes on residential property and perhaps the shift of non-residential property taxes to the provincial level also. This move might ideally be accompanied by a restructuring of local boards of education into a more community-based advisory role, although much more work is clearly needed in developing just how this might work.

In addition, two changes suggested by Buttrick (1977) seem

eminently worthy of consideration: some shift of resources from the secondary to the elementary level (with the abolition of Grade 13) and the introduction of a limited scheme of non-transferable vouchers for education after, say, Grade 8, preferably with poorer people receiving larger vouchers. Both the educational and economic consequences postulated for this scheme seem plausible and worthwhile, although it might perhaps be desirable to try the scheme for some years in a few regions before launching it province-wide. There is no reason why the oft-touted virtues of local experimentation of this sort cannot be realized as well or better under a more explicitly centralized financing system than they appear to be under the present system. In the present context of declining enrolments and the probable ensuing real decline in public resources for education further exploration of both these alternatives seems warranted.

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